

Outsourcing Support Office

BUSINESS UNIT DEFINITION AND ANALYSIS GUIDE

- A Supplement to
Succeeding at Competition

31 December 1997



INTRODUCTION

Purpose of this Guide

This guide provides an eight-step Business Unit Analysis (BUA) process, for use at the installation. This process serves two overarching purposes: (1) it provides an approach to help installation commanders accomplish the Business Unit Definition task in Step 1 of the A-76 process, Planning for a Commercial Activities Study, and (2) it provides commanding officers a powerful tool for assessing, rethinking and improving core businesses on an installation irrespective of the A-76 process or a Commercial Activities Study. The business unit analysis process described in this guide will help installation commanders:

- Identify the business unit structure at an installation;
- Identify all costs related to each unit;
- Identify areas for highest improvement opportunity using performance metrics; and
- Build a change implementation plan.

Benefits of the Business Unit Analysis Process

The U.S. Navy operates in an environment of limited resources while being required to maintain high levels of readiness to meet operational commitments. In such an environment, installation commanders are constantly faced with the need to increase operating efficiencies. There are issues and questions which must be addressed when making decisions about how to achieve these operating efficiencies.

The BUA process described in this guide provides a methodology to address these issues so installation commanders can make

more informed decisions while seeking to improve service to customers and to generate greater operating efficiencies. The methodology can easily be used to build on what's already been developed during the annual strategic business planning process.

A BUA study can be conducted in about 90 days. This study will provide commanders with a basic economic business model of the installation. With this analysis, they can understand where the installation's resources are being applied and what adjustments can be made with corresponding risks identified.

The installation commander is completely in charge of the BUA process. Use of the methodology is solely at the installation commander's option. It can be changed, remolded or adapted in any way to fit installation needs.

CO Tip: Typical questions this guide helps to address include:

What are our core competencies?

Who are our customers?

What volume of business do each of our customers represent?

What services do they need and/or want?

Who in the organization is responsible for delivering quality products or services to each customer?

What are the business unit groups that deliver our products?

What total resources (people, budget, reimbursables, equipment, and facilities) did we have this year to produce our products?

How much did we invest in each business unit per unit of product delivered?

How does our performance compare with private industry or other commands?

What should we change?

EXECUTIVE SUMMARY

Business Unit Analysis Process

The 90-day (12 week) business unit analysis described in this guide is an eight-step process. Exhibit 1 depicts each of these eight steps and the timeline for the overall business unit analysis.

Step 1: Establish and Charter the Business Unit Analysis Team. The process begins with the installation commander establishing, chartering and empowering a business unit analysis team to perform the work. Estimated time to complete: 0.5 weeks.

Step 2: Identify Installation Customers and Mission. The installation commander chairs an off-site meeting with the business unit analysis team and other installation senior leaders. This meeting is to define the installation's mission in terms of its customers and the products and services the installation provides them. This step leads to identification of the installation's core business areas. Estimated time to complete: 1 week.

CO Tip: For purposes of this guide, "core business areas" refers to the main business lines that constitute base operating functions. It does not refer to operational core missions.

Step 3: Define the Installation Business Unit Structure. The business unit analysis team builds on the work begun in Step 2 and defines a core business model for the installation. This core business model includes developing a more detailed understanding of the functions and sub-functions performed within each of the installation's core business areas identified earlier in Step 2. At the conclusion of Step

3, the business unit analysis team provides the installation commander a progress update for approval. Estimated time to complete: 3 weeks.

Step 4: Identify Cost of Resources. The business unit analysis team identifies the total cost of resources used to generate products and services within each sub-function. These costs are then aggregated to provide total costs for each function and subsequently, each core business area. During this step, the team identifies the sub-functions which consume the largest portion of resources on the installation. These "main event" sub-functions then become the focus of more detailed analysis aimed at identifying improved operating efficiencies. Estimated time to complete: 3 weeks.

Step 5: Benchmark Performance. The business unit analysis team compares or benchmarks "main event" sub-function performance (quality, timeliness and cost per unit) with "best in class" commercial organizations or other commands. This helps identify the greatest targets of opportunity for performance improvement. However, the most important benchmark is that desired by your customer to meet their mission needs as identified by your customer surveys. At the conclusion of Step 5, the business unit analysis team provides the installation commander a progress update for approval including focus areas recommended as targets for improvement. Estimated time to complete: 2 weeks.

Step 6: Formulate Strategies for Change. The business unit analysis team formulates and analyzes strategies for change in each of the focus areas approved as targets for

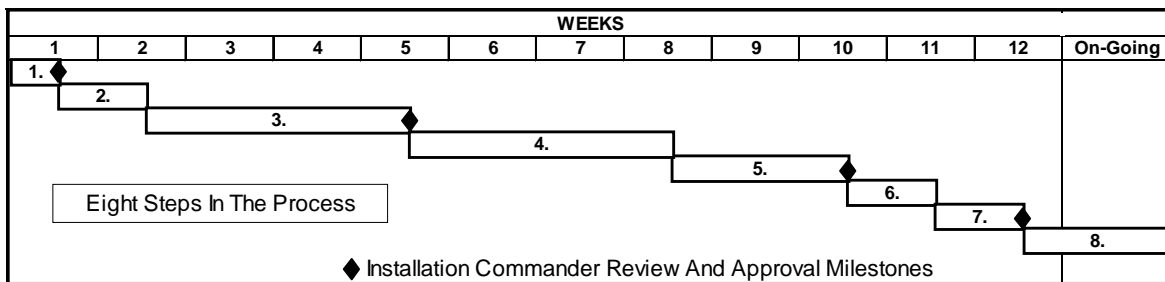
improvement during the installation commander progress update at the conclusion of Step 5. Estimated time to complete: 1 week.

Step 7: Prepare Change Implementation Plan. The business unit analysis team prepares a change implementation plan including proposed prioritization of the strategies for change identified during Step 6. At the conclusion of Step 7, the business unit analysis team provides the overall

business unit analysis and change implementation plan to the installation commander for approval and subsequent implementation. Estimated time to complete: 1 week.

Step 8: Execute the Plan and Monitor Progress. The installation incorporates business unit analysis as a part of its day-to-day business activity and the annual strategic business planning process of the installation. This step is on-going.

EXHIBIT 1: BUSINESS UNIT ANALYSIS PROCESS AND TIMELINE



DESCRIPTION OF STEPS IN THE BUSINESS UNIT ANALYSIS PROCESS

Step 1: Establish and Charter the Business Unit Analysis Team

Step 2: Identify Installation Customers and Mission

Step 3: Define the Installation Business Unit Structure

Step 4: Identify Cost of Resources

Step 5: Benchmark Performance

Step 6: Formulate Strategies for Change

Step 7: Prepare Change Implementation Plan

Step 8: Execute the Plan and Monitor Progress

How the Business Unit Analysis Process Fits with the A-76 Study Process

The Outsourcing Support Office publication entitled *Succeeding at Competition: Guide to Conducting Commercial Activities Studies* organizes the OMB Circular A-76 study process into 15 steps. The business unit analysis process described in this guide can

feed directly into to the first step of the A-76 process.

Early in the first step of the Commercial Activities (CA) process, the Commanding Officer, CA Team Leader and the organization's senior management discuss all issues surrounding the function to be studied. This includes identifying the elements of the organization under study and

those associated groups that interact and support the core function. In performing this task, the Commanding Officer and the CA team establish the boundaries of the function or business unit under study. Where these boundaries are set is crucial to the shore establishment's ability to perform the A-76 work regardless of who wins the competition. In creating the business unit, boundaries are established in such a way that the product or service produced by the activity is adequately maintained.

In the business unit analysis process described in this guide, the most complete understanding of an installation's business units occurs at the end of Step 7, Prepare Change Implementation Plan. Performing a Commercial Activities Study may be one of the strategies proposed for the change implementation plan developed during this step of the business unit analysis process. Accordingly, the completed business analysis process can feed directly into the business unit definition task in the first step of the A-76 study process.

The time line for an announced A-76 study may preclude a complete business unit analysis before performing the first task in an A-76 study. If this is the case, sufficient information should exist at the end of the first phase of Step 3 of the business unit analysis process (Define the Installation Business Unit Structure) to feed the business unit definition task in the first step of the A-76 study process.

CO Tip: The business unit analysis process described in this guide can feed directly into the business unit definition task of the A-76 study process either at the conclusion of Step 3 or Step 7 of the business unit analysis process.

Organization of the Guide

The remainder of this guide includes a detailed discussion of how to perform each of the eight steps in the business unit analysis process. Each step includes sample tools for use in performing the step.

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